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June 19, 2007

The Honorable Tom Courtney, State Senator
The Honorable Ron Wieck, State Senator
The Honorable Vicki Lensing, State Representative
The Honorable Ralph Watts, State Representative
Joint Government Oversight Committee
State Capitol
LOCAL

Dear Senators Courtney and Wieck and Representatives Lensing and Watts:

Our office has been asked to provide the Joint Government Oversight Committee with an update of our actions with respect to the Iowa Student Loan Liquidity Corporation (ISL) and recent concerns raised about the student loan industry, in general. We are actively examining these serious matters and their potential impact on Iowa college students and their families.

Iowa Student Loan Liquidity Corporation. On April 24, 2007, we received a letter from Governor Culver requesting guidance on several institutional and legal issues concerning ISL. The Governor's inquiries included the following: (1) Whether the Governor should be appointing ISL's board of directors; (2) whether the members of ISL's board of directors should also, simultaneously, be serving on the Iowa College Student Aid Commission (ICSAC) and/or the Iowa Board of Regents; (3) whether members of ISL's board of directors should be receiving compensation for that service, particularly those who are state officials and those whose membership is ex-officio; (4) whether ISL's operation should be exempt from Iowa's open meetings and public records statutes when ISL has access to Iowa's bonding authority; and (5) whether ISL's operations, as presently constituted, are sufficiently subjected to oversight by state government.

Attorneys in our office are conducting research on these questions and preparing a response to the Governor's letter.

Concerns with Practices in the Student Loan Industry. Across the nation, concerns have been raised about improper and illegal practices in the student loan industry. Investigations, most notably the one conducted by the New York Attorney General, have uncovered troublesome activities of certain schools and lenders, including "preferred lender lists," payments and inducements by lenders to financial aid officers, and "revenue sharing" between lenders and schools. These practices hurt students and their families in two primary ways. First, competition among lenders is suppressed, resulting in higher student loan interest rates and less desirable loan terms. Second, the practices have been shown to directly raise the costs of loans to lenders - costs that are ultimately paid by student borrowers.

Our office is taking several steps in this arena. First, we have consulted in depth with other state attorneys general about the investigations and enforcement actions carried out in New York and elsewhere. Second, we want to determine whether improper or illegal student loan practices have been, or are being, carried out in Iowa. We have met with parties knowledgeable about student loan practices in Iowa and we will be collecting additional information from across the state. Third, state attorneys general, including our office, are encouraging the United States Senate to pass "The Student Loan Sunshine Act" - H.R. 890. This Act, which passed the United States House of Representatives on a vote of 414-3, addresses many of the abuses uncovered in the student loan industry. We believe a strong, effective federal statute would address the problem in a nationwide, consistent manner. However, if Congress does not so act, we believe Iowa should consider state legislation and we stand ready to assist the legislature. Finally, our Consumer Protection Division plans to develop new consumer education efforts designed to assist students and their families in making wise student loan decisions.

If you or other members of your Committee have additional questions or concerns, please do not hesitate to contact me.

Sincerely yours,

Eric Tabor
Chief of Staff